



BSAC INTERVIEW SERIES

INTERVIEW WITH LEE BARTLETT

The BSAC Interview Series continued on Wednesday 30 September, when Lee Bartlett, Managing Director of Global Content, ITV, was interviewed by Adam Singer, Chairman, BSAC. The event was kindly sponsored by KPMG. This report is an abridged version of the discussion.

Adam Singer introduced Lee Bartlett, and said that he looked forward to hearing his point of view as an American executive being parachuted in to a very different business environment. Lee had previously worked at Fox Entertainment and had a legal and financial background.

Adam Singer: Tonight we're going to discuss business models, the role of advertising supported broadcast television and the nature of regulation. Let's start off with culture and perhaps you could tell us what things have struck you over the last year as major cultural differences between here and the West Coast?



Lee Bartlett: We speak the same language but, with no value judgement at all, we think differently, and I could give a few examples of some of the things that have particularly struck me. The first one is, in the States, in television there's a sense of urgency. We just did a deal to co-produce Prime Suspect in the US with NBC, and I went there to help facilitate that deal and two things struck me.

First of all there was a finite period of time when you had to make the deal because everybody would be very excited about it, and if you didn't make it within that short period of time it wouldn't happen. The other thing which I loved was the competition between three of the biggest broadcast networks for the project. One of the first things that happened to me at ITV, other than being parachuted into my job, was that we had a format that was very interesting I said 'well let's pitch it to ITV at noon and then I want to go over to BBC at 4, and then I want to go over to 5 or Sky', and there was dead silence in the room. People just looked at me and they said 'well no, someone will get mad', and to me that was the point. In America, if you want to be able to make a deal that's favourable to the production company, then there's just a short period of time to do that. And here that just doesn't happen, there is no urgency. I haven't seen any real competition for a particular project. Another thing that was interesting to me is that, through my eyes,

Great Britain is *Great* Britain, it's got 63m people in it and they live in this pretty small space. I didn't realise the difference between regions, to begin with I couldn't even hear the difference in the accents, let alone understand what those differences meant. I went home the second weekend that I was here and I wanted to see all the programmes that ITV made. And I'd never seen Coronation Street, and I didn't know that Coronation Street was also known as Corrie. I watched the episodes, and then I came back to the office and I asked someone 'I watched all these but where's Corrie?', and of course they laughed and then I figured that out. Watching 'Coronation Street', I had no social context for the show, so I had no idea why people would watch it, or why it would stay on the air for 50 years. In American soap operas everybody's beautiful, everybody lives happily ever after and everybody's rich, and you look at Coronation Street or East Enders and it's exactly the opposite. The way television is done in the States is not better and I'm not saying that it's worse, it's just different.

AS: Going back to the point that you made about the sense of urgency, how does one deal with that lack of sense of urgency? One of the things which has always struck me about the UK television industry, having worked in the US for a few years, is that it's an amazingly self-referential industry. I mean in the US you would never see the industry going off to Cambridge Massachusetts for two days every other year to reflect upon itself and re-enforce itself with conversations. And it strikes me that's a major cultural difference. And the other cultural difference is that in the US there was an absolutely ingrained sense of economics. And in the UK industry, economics have become much more important only in the last few years. How have you found that kind of self-referential issue and the issue about the economics, because you come from a background where television really is a business and here the long-standing culture is that it is a service or an art?

LB: We don't have the concept of public service broadcasting which is very important in British culture, for example the need for impartial news. To an American, news can't be impartial because somebody is writing it. And video footage cannot be impartial because it depends on the angle you're taking it or what you happen to be shooting. So the sense of public obligation doesn't exist. To us, news is there to make money and it has a particular point of view. And the broadcast networks are closer to the BBC or ITV, but they have a point of view, it's all business. So, US news and shows are there because television is there to sell advertising, or to get subscription revenue. And here the sense of economics is completely different. And part of that is because the biggest player in the field is the state broadcaster. It skews the market because you end up competing against somebody who has a completely different definition of success than you do and has a lot more money than you do. So you don't need the sense of urgency, and the networks don't compete in an economic sense. Whether 5m or 10m people saw it is very important here. In the States I don't care how many people saw it, I want to know what the 18-45 demographic was, whether or not it's skewed male or female. I'll use that information to sell to advertisers and if I deliver the right demographic I'm going to be able to price to that demographic, there's not going to be any restrictions on me to do that. This system is different. Not better, not worse, just completely different. I think the point of Cambridge, to be blunt, is a lot of people patting each other on the shoulder and making sure that they get a lot of press, because so much of our industry is played out in the press particularly in London, and yes there's good thinking that happens and interesting ideas but I don't ever see anything concrete come out of it.

AS: One of the things which I'd also be interested to hear about are your views on the regulation.

LB: I don't think an American can understand it until you live under the regulation and particularly as the regulation is applied to ITV. So which regulation shall I start with?

AS: Well you have some interesting comments about Kangaroo, the nature of the advertising regime, the nature of market distortion, and whether or not ITV is a public service broadcaster.

LB: ITV is a public service broadcaster, now. And by the way, things I express about ITV are truly my own opinion. The idea behind Kangaroo was really good because coming out of Fox where I was part of the group that helped put Hulu together and saw the success of Hulu, it was a logical extension of television, and when you look at the Hulu site the first thing that I said when we were given the demonstration at Fox was ‘that’s the end of broadcast television as we know it’, because it was all there when, how, and in any order that you wanted it. Kangaroo also made sense, it bought together three of the major players here, and we went through the whole thing and then the Competition Commission said it was anti-competitive. I’ve read some of the report and I think ‘It’s anti-competitive to what?’ And it falls to me in the same category in a way as product placement because by stopping us, as British broadcasters, from building up size and scale and having additional revenue streams, all we do is open the door for somebody else to come in. So you’re going to have Hulu, or Google or Amazon. So it’s like we shoot ourselves in the foot. You can import American programming that’s full of product placement, but we can’t place product ourselves. Or if we can place product, it can’t be unduly prominent. Well, if it can’t be unduly prominent why would you place your product in the show? Some of these things, from a cultural context, just make no sense to me.

I understand why CRR was needed, because at the time you had one huge commercial player and the BBC. One could argue, so what, because the BBC is not after advertising. And the other thing one could argue is, who is CRR protecting? To me, it protects Proctor and Gamble or Google or anybody else from having to pay too much money to reach a mass audience, so they get to reach it cheaply, and as a result I can’t charge what the market will bear for my ad time, why would I invest in programming that I can’t make money on? When I look at applying it to ITV, they want CRR because we have the ability to create mass audiences, which is exactly what the advertisers want. And there’s another regulation that says that I’m only allowed a certain amount of ad time in certain parts of the day and I can’t switch peak for tea time or day time, and I’m only allowed a certain amount in peak, which is where I really want to try and make my money because that’s where you have the biggest audiences. So you end up being forced in peak time, because of the way the market works, to put programming on the air that doesn’t have advertising. So if there’s no advertising in it, whatever the licence fee is for that is a pure cost because I have no way of recouping it. And the thing that was really hard for me to understand was if Coke wanted a 10 second spot in Idol in the finale they paid millions of dollars for that because they had, for us a gigantic audience which is 30m people, and the prime demographic. So if you want to advertise in that period of time and that programme is costing me a lot of money because it’s ‘high quality’, why not? That’s what you should pay if you want to be in that show. Or if you want to be in a show that has demographics of north of 56 years old then I’m not going to charge you as much for that. And it’s the same thing with product placement. We found in the States, if you put too much product in the show people turn the show off. So I don’t believe that the public is so stupid that they’re going to watch something that they don’t like. And we had that issue in Idol where we actually took some of the product out because it started to overwhelm the show. So those are probably the areas that bother me the most.

In the US, we had financial interests in syndication rules, which prohibited networks from owning their own programming, and those got repealed in the 90s so that there was no protection for independents. And all of the networks said and believed at the time that ‘well that won’t make any difference, it won’t hurt the independent sector’. Well I could make the argument that it probably destroyed the independent sector, because if you have the opportunity to own not only the advertising revenue, but all

the ancillary revenue as well for the same price, you would be out of your mind not to take advantage of that opportunity. So the 25% rule here I support, I think it makes absolute sense. The regulation behind that which determines the pricing and the ownership interests that the network can have in the show that should be more open so that the economic model that commercial broadcasters operate under can survive. I'm really concerned that the market here is too small to support the number of PSBs that we have with the cost that's attendant to that. And the way of overcoming that is either to free up the ad market, or to permit product placement or a change in the way in which independents deal with networks. And I know this is somewhat contentious. And then when I apply it to the Content Division of ITV I feel that we are operating with both hands tied behind our backs because due to the networking arrangements, I get no preferential treatment from my own network. And that is internally policed. So I am not supposed to have any preferential access to my own networks at ITV1. At the same time, I'm not an independent, so if I sell to a PSB I don't come in under the 25% quota, which generally means that now I'm competing with their own in-house production arm for a particular time slot. So the playing field, to me, is absolutely not level and we are successful under that partially because of the content we have. We can actually sell off ITV, that's one of the best parts of our business right now, but clearly not to the BBC. So it makes it extremely difficult to deliver a revenue stream to the Plc., which is going to help them fund their programming budget. Programming budgets are down, and as a result of that there's less money in the market. The people that are going to get hurt the most are not me, or All3Media or Endemol or Freemantle, but small companies with one or two dramas or reality series, because the money isn't going to be there in order to pay for their programming. So, to me, the system needs to be freer. I don't think everybody will survive it, but I don't know how you regulate the survival of a lot of unprofitable or economically unsound business models. And then probably without touching on the BBC, the last thing is, we should be competing against the big US media companies, because the world is actually where we can make money to survive to put good programming on our own air. But we're very fragmented. BBC worldwide and ITV distribution are tiny compared to Fox or Warners or Universal. We don't compete with them, yet their product sells all over the world for good prices, you don't have to like its content necessarily but from production values nobody does it better. That's because, at least under the current model, they fund a lot of that programming through selling it outside of the US or secondary windows in the US.

AS: What's beginning to emerge from what you are saying is a very detached and interesting view about life here. You're outlining a sector where there are some serious question marks over the other commercial public service broadcasters. You've got a sector whereby you have regulatory problems which are stopping scale. The nature of the individual players in the UK is that they are sub-scale and they're being prevented from actually gaining that scale. It's really difficult to compete against the major scale of the United States with this kind of fragmentation. Let's put aside all the highly public parochial issues that have come out from ITV but deal with the real macro economic issues. How can you believe in this business as a long term business when it is being corralled by a set of forces which is keeping it sub-scale? How do you intend to solve that?

LB: I'm not sure that television in the way that we watch it today is salvable by keeping anything remotely looking like the system we have in place now. I think that the speed in which technology is changing and the way people view television is changing much more rapidly than any of us think. If any of us have kids, I bet you they don't say 'tonight I'm going to watch the BBC' or 'tonight I'm going to watch ITV'. They say 'tonight I want to watch Coronation Street', and they probably go to their laptop and watch it at the same time that they're doing two or three other things. In the very near future probably first in the US and then later here it becomes the creation of content, and we're putting it out on distribution platforms. With Freeview and iPlayer, again we're shooting ourselves in the foot

because we can't make any money off it and more and more people are watching television out of its time slot and they don't even know what network they are watching it on. So where's the solution? People look for the content or the brand of the content. They don't really care how they consume it. They want their programme when they want to watch it, on whatever platform they want to. We, in traditional broadcast are consumed with the distribution platform and putting the programme out when we think people want to watch it, I don't think that that's a sustainable model. I don't know what's going to happen in 20 years, or even 5 years, all that I know is that it will not look like it looks now. I don't think anybody in this room believes that it would, but if we continue to try and find the solution through people who aren't in our business, that don't understand that content is central, then I think we're in for some serious trouble.

Audience Member: You were talking about cultural differences which I think is very interesting because we've become such a global community and you can get content and American TV shows next day on iTunes and get the box set two months later. If one network wants to survive, in my opinion, we have to create content that the world wants to see, or at least the portion that can spend the money to get your money back. One worry that I have is that all this reality TV on the networks lately is very regional, it's very local. I don't think people in America care to watch Big Brother, the UK version, because they don't understand what the hell is going on in it. How are networks and how are you personally dealing with that? Is it still worthwhile putting this much effort into reality TV programming? Is it actually good as a long term investment? Or is drama a type of content that people want to own and want to keep coming back to, the future of programming essentially?

LB: There are two different types of content. You're right, you can't sell the UK Big Brother outside of the UK, but the format of the show, how it's constructed, travels. And so you can make money by producing that format outside your home territory and you make money by licensing the format to other people. Britain's Got Talent in the UK works in the US, but that's America's Got Talent. Funnily enough certain shows, Hell's Kitchen UK is on here but Hell's Kitchen USA is also on here. American dramas reflect American culture in many respects, and are done very well. £1m is a lot of money to spend for a one hour episode of drama here. £1m won't buy you much for a one hour drama in the US. It will cost you double that at least. But you can sell that episode, because of its production value, because of its pace, because of the people that are in it, to pretty much every country in the world. I believe British television is intellectually more interesting than American drama. It's slower, it's shot differently and it conveys a more realistic or a different point of view. Everybody has heard of Desperate Housewives. It's probably on in almost country in the world and it would never get an audience of say 10m in the US. Doc Martin, which I watched the other night and it was great, got an audience of 8m. You can't sell that for anywhere near the price that you can sell a US episode, yet that's the drama that we think we should make because we think that that's what our audience wants to watch. But from a pure economic point of view it's probably unsustainable because it doesn't have enough oomph in it for other people to want to watch it. And that in a way is a real shame because a lot of the drama here really makes you think and care about the characters, but because UK culture hasn't been as exported as American culture has, it's harder to relate to it. It's the same thing in the film business. We used to have a really vibrant film industry that could absolutely compete with the Americans, and somewhere along the line, we lost that. So now most British films are speciality films that play in limited runs in the US or limited runs internationally, and so you can't afford a budget of \$100m or \$200m to produce a film. Or if you do, you have pre-sold that film in 87,000 territories so you have covered your production costs and there's very little upside. So again, content is key.

Michael Ridley, DLA Piper: Lee, could you envisage the possibility of an American company ever wanting to buy ITV? And given the cultural differences that you've experienced yourself do you think that would be a good idea on their part?

LB: The really short answer is no. If I was advising a private equity company, I'd put aside the pension deficit etc, but under the regulatory environment there is a real cap on how much money you can earn out of it and until some of the regulation is relaxed I don't know why anybody would do it. Particularly because if you take ITV it has a fundamental issue to deal with too, and is essential to answer this question. This is a really personal point of view. Is it a British broadcaster who is producing programming for the British market and derives its revenue from advertising within the UK and tries to get a bit of secondary revenue out from VOD or any of the other online ways. No one has figured out how to make money from that. But there are only 63m people here, so to me that's capped out. Or are you a content company that happens to have the advantage of four networks that you can use to showcase your content and therefore create a ratings record or a marketing base in order to turn around and sell that outside of your home territory, so that then you have all the ancilliary revenue from that which lets you put new UK produced programming back on TV. To me it's akin to the theatrical film model, because when you release a picture theatrically in the US, the box office is the equivalent of advertising revenue and it never covers the cost of production, prints and advertising, but everybody in the world knows that that picture was released on 3000 screens and it cost \$200m. And then you make your revenue from DVD, from online, from VOD, from SVOD and you window it on every network in every country, and you get your investment back that way. And I believe that ITV has everything that it needs to be successful on paper, but without being able to operate freely in the market I think you'd have to be willing to wait forever to get your money back.

David Elstein: If you get no special privileges inside ITV as running the production entity and you are largely barred from the rest of the UK because you're not independent, what's the point of being inside ITV? I mean wouldn't ITV Productions be a much more vibrant entity if it had complete independence? A company your size would have at least 40% of its production activity abroad, a lot of it in the US. You'd be making really exciting drama for a worldwide audience. What's the point of staying inside? For you. I'm not talking about the owners.

LB: From a personal point of view, it's the challenge of getting it right. It goes back to what I was saying before that I think that ITV has all of the assets and tools at its disposal to change itself. It's a question of how you do it and whether there is the will to do it. So I think that the network should go as close to the regulation wall as it can. That's the American way. If you used your networks to support your production, or to support your content, and you are looking outside of your traditional market to grow, that is a very different way of using the network. If you don't want to do that, then why have a content company? Because then you are free to buy whatever programming you want from whoever you want to buy it, but you can't of course own it because that's not permitted in that sense. That's called Channel 4. So I would say that if the vision of the company is to be a UK company I don't know why you would need your production business. And that is a really personal view.

Simon Olswang: You've given us a really brilliant exposition of how it looks to you, as a savvy US experienced executive. There is a common assumption that there will be a change of government here in a few months, have you talked with the likely incoming administration, and if you have, have you detected any sympathy for your perspective?

LB: I think philosophically they're probably more akin to what I'm talking about. What people say to get elected and what actually happens after they get elected are not necessarily the same thing. So I won't hang my hat on a new administration that's going to come in and say 'well we're going to free everybody of regulation', because you've got to have a lot of political power and clout to do that, and I don't believe that that would make the BBC particularly happy, and they have a lot of political clout. So I'm not hopeful that there's a radical change coming soon. And freeing all the companies of regulation will create other problems because the American system doesn't work that well either, but it would go a long way to changing it. From a personal point of view, the time I've been fortunate enough to be in the UK and work at ITV has been fun. I have learnt a lot about my own culture by looking at it through somebody else's eyes.

Parminder Vir: Can you imagine an Indian or a Chinese media conglomerate coming to buy ITV in the future? And how do you value the emerging market, India and China being the obvious ones, but also Africa and Latin America, for ITV content, and what is the importance and significance of those markets? A lot of the Indian major studios are doing deals with Fox, Columbia, Paramount, and similarly with China, they are flexing their muscles, they are looking for markets outside of their own territories. What is your take from your global content position?

LB: Some of the content that we produce is very exportable. I call it 'non-political programming', so you could put wildlife, the Isles of Britain, House Hunters, and sell them in packages internationally, because you need to scale to do this, packaging 100, 200, 300 episodes together to sell to a broadcaster in China or Taiwan is starting to become really good business. It's hard business because there are no big deals. So a deal in Asia that's worth \$200,000 or \$300,000 spread out over eight or nine territories is a big deal, but it takes a long time to cobble all of those together. Our Hong Kong office probably shows the highest growth potential and has the highest year on year increase, but it's also starting from a very low base. But I think selling outside of Europe and into the emerging markets is really critical for all of us. Learning from a cultural point of view how to produce in those markets is very difficult and you need to go in with local partners, and you need to trust the local partner. It's a learning process for all of us. We started a cable channel as a footprint in Asia, we now have Granada TV which is 100% our product, and it works on six hour wheels that repeat every four hours. It's a really good experiment to see if what you are talking about works.

Audience Member: Being an American living over here as long as I have, when I watch television in the States I'm embarrassed because it becomes harder to actually see the content because there's bugs coming across the bottom, and there's breaks every four to five minutes, and I'm thinking how does that product have a chance to shine amongst all of that? And do the broadcasters really think their consumer is stupid? Here, in reverse, I actually get the whole story when I get to sit down and watch a show, it's a pleasure, but I still agree that we have a different way of filming over here than we do in the States. How can we reconcile the way they do it in the States, which I find appalling for content, and still make it commercial here?

LB: The result is that people don't watch the programme in its time slot. They watch it on PVR and skip through 90% of the advertising. Or they stream it with a ten second ad at the top and the tail. And now companies are experimenting with the consumer paying 50 cents to watch it without ads. I wasn't holding the American way of transmitting shows as a model necessarily, I was talking about the content behind that.

Carole Tongue, Sovereign Strategy: I hope the powers that be could hear your comments about Kangaroo. Maybe the Competition Commission needs a revision of its guidelines to take account of the global nature of the economy. Am I right in deducing from what you say about the future for global content for ITV, that you need to increase the budgets and look beyond that £1m an hour for ITV, even as much as £3m. Is that something that could ever be possible for ITV?

LB: First of all I don't think under the regulatory regime that that would be possible because you could never recoup your investment, and second of all I don't know the market here, for the first transmission, is big enough from an advertising point of view, even without regulation, to be able to accommodate that. At ITV, if I go back to my example of Prime Suspect which is being co-produced with NBC, we have the international distribution rights. We finance half the deficit, which is a huge financial risk because the failure rate in the States is between 80% and 90%. But if it works then you can take that one piece of American content and bundle it with a lot of other programming that would not necessarily command the price that it would otherwise. And ideally you do it in conjunction with your own network so that it is both US and UK centred. Very difficult to do because you need to make the American creative executive and the British creative executive both feel that it's theirs, and that's hard.

Lavinia Carey, British Video Association: Going back to what you said about not really knowing what might happen in the next five years, do you think that television companies will stop streaming or providing catch-up TV online? At what point do you think it would be possible to make money out of digital distribution? I know that's a difficult question, but newspapers have given so much away online and now they can't get anybody to pay, could that happen for television?

LB: Well I think to a certain extent it is happening. And the interesting thing on the newspaper front is the News Corp decision to make consumers pay. People are used to paying for print, so to extend that thought process to non-linear distribution of newspapers is probably easier than doing it for television because most people think television is free, even though we pay a licence fee or subscription. I think that it's a harder proposition to get people to pay online. The question is, if broadcasters quit streaming online, can you force people to go back to the television or does that just quadruple PVR sales or VOD? It is the distribution platform, not the content itself. You need to own as much of that content as you can because eventually we will figure out different ways of obtaining revenue from it. It gets back to the theatrical motion picture model where they don't make their money from the first transmission but they have figured out a way to sell it.

David Graham, Attentional: It seems to me essential to your project to be part of, where drama is concerned, a successful American network hit show. Now, that essentially means there is a disconnect between the production that your company does in the UK and your aspirations for the global part of the company. And taking that one stage further, American shows don't play that successfully in peak time in Britain, so that the disconnect is increased. Now, I'm just wondering whether that is correct in your view. And whether there is some room on an American network for a successful drama with a bit more of a British accent? So that at least there's a cultural contribution from the fact that you're working for a British company albeit, and correctly in my view, with global ambitions.

LB: I believe that with the right content you can make a show that's half British and half American, that appeals to both cultural sensibilities. Because, if you think about it, we all like cop shows, and at the centre of a successful cop show is not the violence or crime, it's the interaction of the characters. The worst thing that can happen to a television show is if you don't care about the character. And we're

close enough culturally that we do share those same interests. Channel 4 and Sky run American programmes in peak time that do well. It's a question of whether what they paid for the programme makes financial sense. And if it doesn't play in peak time to an American distributor, they don't get quite as much money. But the thing that's been interesting to me is when I watch television here past 11 o'clock at night my guess is 50 - 70% of the programming on then is American, which I interpret as a big appetite for American programming. Perhaps one of the reasons that major free networks don't show American programming on prime time is that it would undermine the people they employ to develop programming. So I believe that there's a pre-disposition against running it because, if I was the commissioner, or if I was a drama development person, running American programmes during peak time negatively affects your ability to produce what I would consider to be really good drama.

Fiona Clarke-Hackston, Director, BSAC, thanked Mr Bartlett for his interesting and frank comments and reminded the audience that the next BSAC Interview with Martha Lane-Fox, Digital Inclusion Champion, would be in early 2010.